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DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR MDELANEY/CLILIEFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/FERUS
EEB/CIP FSAEED, KDUNNE, AGIBBS
DEPT PASS TO USTDA HSTEINGASS/JFLEWELLING

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ETRD, BEXP, PINR, KFPC, IN

SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of
August 17-21, 2009

REFTEL:

11. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of August 17-21, 2009, including the
following:

- Prime Minister's Economic Advisory Council Reconstituted
- Dr. Subir Gokran Likely to be Next RBI Deputy Governor
- Ministry of Finance Releases Direct Tax Code
- New Economic Data Points to Economic Recovery
- India Signs FTA with ASEAN
- India National Gas Grid Technical Assistance Project Finally
Underway
- India's Answer to Google Earth Launched to Mixed Reviews
- Beleaguered American Company Running Low on Options

Prime Minister's Economic Advisory Council
Reconstituted

12. (U) The Prime Minister has reconstituted the Economic Advisory
Council (EAC) with Dr. C. Rangarajan as its Chairman. The EAC
provides advice to the Prime Minister on policy matters and also
prepares a monthly report on economic developments at home and
abroad. It monitors economic trends on a regular basis and suggests
suitable policy responses to the Prime Minister.

13. (U) Dr. Rangariajan is a close confidant to Prime Minister Singh
and was the chairman of the EAC in 2008 before resigning when he was
nominated for the upper house of Parliament. Other members of the
EAC include: Dr. Saumitra Chaudhuri, a Planning Commission member
and Economic Adviser at India's leading Investment Information and
Credit Rating Agency; Dr. M. Govinda Rao, Director at the National
Institute of Public Finance and Policy; Dr. Vijay Shankar Vyas,
President of the Asian Society of Agricultural Economists; Dr. Suman
Bery, Director General of the National Council of Applied Economic
Research. Members of the Council will have the rank of Minister of

State, which makes them just below Cabinet-level Ministers. All are well-known, pro-reform economists with distinguished records and backgrounds.

Dr. Subir Gokran Likely to be Next
RBI Deputy Governor

¶4. (U) Reliable sources have confirmed media reports that Dr. Subir Gokran, Chief Economist at Standard and Poor's (S&P) Asia Pacific, is the leading contender to be the next Deputy Governor of the Reserve Bank of India (RBI). Dr. Gokran is a well-known and influential macroeconomist who has good relations with the Finance Ministry. At 49, he will be one of the youngest RBI Deputy Governors.

¶5. (U) Dr. Gokran is considered pro-reform and has been vocal in his support for further economic liberalization. He will be responsible for monetary policy, a major challenge given the need to maintain liquidity to enable large government borrowings, coupled with the need to contain inflation.

¶6. (U) Since 2007, Dr. Gokran has been responsible for shaping S&P's macroeconomic policies in the Asia-Pacific region, after being chief economist of Crisil Ltd., an S&P company. He was also chief economist at the National Council of Applied Economic Research, and associate professor at the Indira Gandhi Institute of Development Research at Mumbai. Dr. Gokran received his PhD in economics from Case Western Reserve University in Cleveland, Ohio.

Ministry of Finance Releases Direct Tax Code

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¶7. (U) Minister Pranab Mukherjee introduced a new draft Direct Tax Code (DTC) to replace the existing Income Tax Act of 1961. The DTC, if implemented, would improve the efficiency of India's tax system, eliminate tax distortions, and expand the tax base. It would also lower personal income tax rates at all levels of income while reintroducing the wealth tax on all assets.

¶8. (U) Under the DTC, foreign and domestic corporations would be taxed equally at the same corporate income tax rate of 25 percent. However, foreign companies would also be subject to a "branch profits tax" of 15 percent, regardless of whether the corporation distributes dividends or not to its foreign parent. Corporations would also be subject to a minimum alternative tax based on total assets, which could adversely affect start-up companies, infrastructure projects, and other businesses that typically suffer losses in early years or take several years to turn a profit.

¶9. (U) The Finance Ministry will accept comments on the DTC through October. Minister Mukherjee plans to introduce the bill in the winter session (November 2009) of Parliament with the goal of making the DTC effective for the fiscal year beginning on April 1, 2011.

New Economic Data Points to Economic Recovery

¶10. (U) Although still one of the world's fastest growing economies, India's real GDP growth did "slow" to 6.7 percent in the past year, down from an annual average of almost nine percent in the previous five years. Recently released economic data indicates a possible return to better days: the index of industrial production (IIP) has risen more than expected, consumer demand has increased, and foreign investment is returning to India.

¶11. (U) IIP rose 7.8 percent in June, up from 5.4 percent in June 2008, the fastest pace in 16 months. The manufacturing and mining sectors showed robust growth as did the electricity sector, despite the negative effect of poor monsoon rains on the hydroelectricity sector. Analysts expect industrial output growth to average around 5.5 percent in Indian FY 2009-10 as compared to 2.6 percent in the previous year. The improving external environment and recovery in industrial activity will help offset the impact of a possible fall

in agricultural production.

¶12. (U) Higher government employee salaries, due to pay raises and increased government spending, boosted consumer demand. Both consumer durables and capital goods sectors were higher by 15.5 percent and 11.8 percent respectively. The one negative indicator is the continuing poor performance of exports, which the Ministry of Commerce and Industry expects declined for the 10th month in a row in July.

¶13. (U) The Reserve Bank of India (RBI) reported that foreign investment in the first quarter (April - June) was up 150 percent as compared to the same period last year. Most of this growth was due to the return of portfolio investment, which dropped off at the onset of the global recession in fall of 2009.

India Signs FTA with ASEAN

¶14. (U) Indian Minister of Commerce & Industry Anand Sharma signed the Association of Southeast Asian Nations (ASEAN)-India Free Trade Agreement (FTA) in Goods on August 13 in Bangkok. The FTA was concluded as part of a Comprehensive Economic Cooperation Agreement (CEPA) signed in October 2003. The FTA will reduce or eliminate 80 percent of India's tariff lines in phases starting January 1, 2010

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and running through 2016. Negative lists contain sensitive products from both sides, with India's lists excluding 1079 items from tariff reduction or elimination mainly to protect farmers as well as auto and chemical manufacturers. Although the FTA was finalized earlier this year after six years of negotiations, the signing suffered repeated setbacks from both the sides-the latest by Indian leftist parties due to concerns of potential harm to the plantation sector of the southern states, specifically in Kerala.

¶15. (U) The Agreement provides bilateral safeguard mechanisms for the initial 7-15 years to guard against import surges. The GOI reports that the 10-member ASEAN is India's fourth largest trading partner with about \$40 billion in total trade in Indian fiscal year 2008-09, behind the EU, U.S., and China. Trade analysts at a government-sponsored economic research institute told Econstaff that India's machinery, steel, auto component, chemical, and textile industries are likely to benefit once the FTA is fully implemented. The ASEAN-India FTA will hopefully benefit the Indian manufacturing sector, which is just now starting to show signs of recovery after a dismal performance for the past 1.5 years, by allowing manufacturers to procure products at competitive prices from ASEAN countries.

¶16. (U) Comment: India's signing of the ASEAN-India FTA as well as several other ongoing regional trade negotiations (Japan, EU, Chile, and recently concluded talks with South Korea) point to India's focus on bilateral trade liberalization. In an August 13 meeting with a U.S. Senate Finance Committee Staffdel, Commerce Ministry officials confirmed that India and ASEAN are currently negotiating additional trade agreements on services and investment. The officials also mentioned that an FTA with Japan may conclude soon. End Comment.

India National Gas Grid Technical Assistance Project Finally Underway

¶17. (SBU) The long-delayed USTDA supported National Gas Grid Technical Assistance project finally got underway on August 18, 2009. The project, which was initially requested by the Gas Authority of India Limited (a government-controlled gas distribution company) in 2005, was transferred to the Petroleum Planning & Analysis Cell (PPAC) within the Ministry of Petroleum and Natural Gas in 2006. After much delay, PPAC selected ICF International and Jacobs Consultancy to perform the study, which aims to develop a conceptual framework for a national gas grid in anticipation of an integrated national natural gas market in India. The study will prepare baseline forecasts of gas demand and supply including two sensitivity analyses; a plan for commercial operations; a market

strategy to provide a sound commercial basis for lenders and investors; a conceptual framework for a gas system based on market forecasts; and recommendations for an operational philosophy.

¶18. (SBU) Comment: In late 2006, the Government of India established the Petroleum and Natural Gas Regulatory Board (PNGRB) to regulate the market. Through a separate technical assistance grant agreement signed in 2008, USTDA is helping PNGRB to establish appropriate market regulatory systems and procedures. PNGRB would have been the natural beneficiary for the Gas Grid project, but the Government delegated the project to PPAC. Recently, PNGRB's new Chairman, Labyendu Mansingh (a well-known officer of the Indian Administrative Service who was offered the assignment post-retirement), has pressured the GOI to move the Gas Grid project over to PNGRB, likely goading PPAC to start the project. Though delayed, the project's timing is fitting as the largest gas find in India (Reliance Industries KG D6 basin) is already embroiled in a pricing controversy. As the gas grid study will be highly data dependent, procuring appropriate data and more importantly validating its

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authenticity will be a challenge for ICF and Jacobs. The large number of government agencies in the Indian energy sector will likely further complicate matters. End Comment.

India's Answer to Google Earth
Launched to Mixed Reviews

¶19. (U) The Indian Space Research Organization (ISRO) launched a preview ("beta") version of a satellite imagery website called "Bhuvan" on August 12. Bhuvan (Sanskrit for "Earth") is positioned as a competitor for the popular Google Earth software package. According to the program's marketing blitz, Bhuvan offers higher resolution, closer zoom (10 meters vs. 200 meters for Google Earth), and more up-to-date images of India than Google Earth. It also plans to provide images in a format optimized for slower bandwidths typically found on the subcontinent. The website, using ISRO's satellite imagery, will also offer information on weather, natural resources, and population on a district-by-district basis.

¶20. (SBU) Dr. Jacob Ninan, a former ISRO official currently working as a consultant for Antrix Corporation Limited (ISRO's marketing and commercialization arm), told Consulate General Chennai that the Bhuvan venture was an attempt at advertising ISRO's capabilities to potential customers of higher-grade imagery products for real estate, mining, and other applications. Despite the fanfare, Bhuvan was not readily accessible in the days after its launch. Access remains intermittent, and journalists and bloggers reported their inability to load the website and complained about its poor functionality and low quality images. Bhuvan will supposedly be accessible at <http://bhuvan.nrsc.gov.in/>; however, potential viewers should note that using Bhuvan involves downloading code not approved for use on State Department computers.

Beleaguered American Company
Running Low on Options

¶21. (SBU) The machines of the 100,000 square foot Bailey Hydropower (BHPL) factory in Chennai once hummed. Now they are mostly silent. Responding to troubling reports, Consulate General officers visited the American-owned hydraulic cylinder factory on August 14. Since 2005, the company has weathered an embezzlement scandal, a months-long strike, and various recriminations, both in and out of court. BHPL's in-country managing director (an American with no prior India experience) now says the company faces retrenchment-laying off up to 60 percent of its current workforce-if it wishes to stay afloat.

¶22. (SBU) BHPL's troubles began in 2005 when its then-manager, who had also been its partner in a Singapore-based venture, was found to be siphoning off large sums of money. A year later, a labor union affiliated with the Communist Party of India - Marxists (CPIM) staged a strike over the distribution of uniforms. In the years that followed, labor disputes cost the company thousands of dollars in

court on what turned out to be trumped-up wage charges. Due to strikes and suspensions, BHPL was unable to meet production demands and lost several million-dollar accounts, then was hit hard by reduced orders from remaining customers due to the economic downturn. The managing director has reluctantly subcontracted much of his factory's work to a Chinese firm and fears he will be forced to shut down operations in Chennai. If the Tamil Nadu government does not approve his application to retrench (the law generally requires government approval for layoffs from companies that have more than 100 employees), he doubts his plant will remain viable in the current economic climate.

¶23. (SBU) Comment: Consulate General Chennai has offered advice and

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stands ready to assist insofar as we can. The case presents a useful cautionary tale illustrating that there are failures as well as successes among American firms engaged in manufacturing in India.
End Comment.

¶24. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>.

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